lululemon athletica inc.
Form 10-Q
June 02, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended May 4, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-33608

lululemon athletica inc.
(Exact name of registrant as specified in its charter)

Delaware	**20-3842867**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2285 Clark Drive, Vancouver, British Columbia	**V5N 3G9**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: 604-732-6124

Former name, former address and former fiscal year, if changed since last report: N/A

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

At May 29, 2008, there were 47,174,709 shares of the registrant s common stock, par value $0.01 per share, outstanding.

Exchangeable and Special Voting Shares:

At May 29, 2008, there were outstanding 20,935,041 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant s common stock.

In addition, at May 29, 2008, the registrant had outstanding 20,935,041 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant s common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

lululemon athletica inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	May 4, 2008 (Unaudited)	February 3, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 34,061,642	$ 53,339,326
Accounts receivable	4,338,299	4,431,556
Inventories	55,047,970	39,092,208
Prepaid expenses, current deferred taxes and other current assets	3,427,277	1,043,328
	96,875,188	97,906,418
Property and equipment, net	49,062,512	44,038,565
Goodwill and intangible assets, net	7,669,612	8,124,047
Deferred income taxes and other assets	5,716,876	5,023,112
	$ 159,324,188	$ 155,092,142
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 4,852,172	$ 5,199,604
Accrued liabilities	11,609,952	7,473,205
Accrued compensation and related expenses	5,670,753	7,969,862
Income taxes payable		5,719,820
Unredeemed gift card liability	6,653,259	8,113,972
Other current liabilities	1,415,130	1,345,088
	30,201,266	35,821,551
Other non-current liabilities	7,097,254	6,721,220
Deferred income taxes	191,906	196,538
	37,490,426	42,739,309
Non-controlling interest	256,564	318,824
Stockholders equity		

Undesignated preferred stock, $0.01 par value, 5,000,000 shares authorized, none issued and outstanding		
Exchangeable stock, no par value, 30,000,000 shares authorized, issued and outstanding 20,935,041 and 20,935,041 shares		
Special voting stock, $0.00001 par value, 30,000,000 shares authorized, issued and outstanding 20,935,041 and 20,935,041 shares	209	209
Common stock, $0.01 par value, 200,000,000 shares authorized, issued and outstanding 46,780,603 and 46,684,700 shares	467,806	466,847
Additional paid-in capital	138,230,688	136,004,955
Accumulated deficit	(21,358,566)	(29,834,956)
Accumulated other comprehensive income	4,237,061	5,396,954
	121,577,198	112,034,009
	$ 159,324,188	$ 155,092,142

See accompanying notes to the interim consolidated financial statements

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Thirteen Weeks Ended May 4, 2008	Three Months Ended April 30, 2007
	(Unaudited)	
Net revenue	$ 78,167,494	$ 44,789,456
Cost of goods sold	36,645,025	22,178,568
Gross profit	41,522,469	22,610,888
Operating expenses:		
Selling, general and administrative expenses	29,801,720	15,762,698
Income from operations	11,720,749	6,848,190
Other expense (income), net	(453,508)	(106,936)
Income before income taxes	12,174,257	6,955,126
Provision for income tax	3,753,231	3,448,653
Non-controlling interest	(55,364)	(35,589)
Net income	$ 8,476,390	$ 3,542,062
Basic earnings per share	$ 0.13	$ 0.05
Diluted earnings per share	$ 0.12	$ 0.05
Basic weighted-average number of shares outstanding	67,678,349	65,225,819
Diluted weighted-average number of shares outstanding	71,650,999	66,060,218

See accompanying notes to the interim consolidated financial statements

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Exchangeable Stock Shares	Exchangeable Stock Par Value	Special Voting Stock Shares	Special Voting Stock Par Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Other Comprehens Income (Loss)
						(Unaudited)			
,	20,935,041	$	20,935,041	$ 209	46,684,700	$ 466,847	$ 136,004,955	$ (29,834,956)	$ 5,396,95
e:									
								8,476,390	
									(1,159,89
e									
ation							2,172,382		
ed					95,903	959	53,351		
08	20,935,041	$	20,935,041	$ 209	46,780,603	$ 467,806	$ 138,230,688	$ (21,358,566)	$ 4,237,06

See accompanying notes to the interim consolidated financial statements

3

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thirteen Weeks Ended May 4, 2008	Three Months Ended April 30, 2007
	(Unaudited)	
Cash flows from operating activities		
Net income	$ 8,476,390	$ 3,542,062
Items not affecting cash		
Depreciation and amortization	3,381,060	1,503,738
Stock-based compensation	2,172,382	1,407,533
Deferred income taxes	(143,785)	2,374,663
Non-controlling interest	(55,364)	(35,589)
Other, including net changes in other non-cash balances		
Prepaid expenses	(2,415,864)	183,114
Inventory	(15,955,762)	1,629,892
Accounts payable	(347,432)	(1,571,379)
Accrued liabilities	1,837,638	(6,872,439)
Other non-cash balances	(7,213,417)	(7,480,946)
	(10,264,154)	(5,319,351)
Cash flows from investing activities		
Purchase of property and equipment	(8,599,974)	(3,325,169)
Acquisition of franchises		(5,000,822)
	(8,599,974)	(8,325,991)
Cash flows from financing activities		
Proceeds from credit facility		1,454,775
Proceeds from exercise of stock options	54,310	
Payment of initial public offering costs		(452,937)
	54,310	1,001,838
Effect of exchange rate changes on cash	(467,866)	1,007,571
Decrease in cash and cash equivalents	(19,277,684)	(11,635,933)
Cash and cash equivalents, beginning of period	53,339,326	16,028,534
Cash and cash equivalents, end of period	$ 34,061,642	$ 4,392,601

See accompanying notes to the interim consolidated financial statements

4

lululemon athletica inc. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation (lululemon or LAI and, together with its subsidiaries unless the context otherwise requires, the Company) is engaged in the design, manufacture and distribution of healthy lifestyle inspired athletic apparel, which is sold through a chain of corporate-owned and operated retail stores, independent franchises and a network of wholesale accounts. The Company s primary markets are Canada, the United States, Japan and Australia, where 38, 32, 4 and nil corporate-owned stores were in operation as at May 4, 2008, respectively. There were 71 and 74 corporate-owned stores in operation as of February 3, 2008, and May 4, 2008 respectively.

Basis of presentation

The unaudited interim consolidated financial statements as of May 4, 2008 and for the 13-week period ended May 4, 2008 and for the three months ended April 30, 2008 are presented using the United States dollar and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the financial information is presented in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and, accordingly, do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2007 Annual Report on Form 10-K filed with the SEC on April 8, 2008.

The Company reorganized its corporate structure on July 26, 2007. This reorganization was accounted for as a transfer of entities under common control, and accordingly, the financial statements for periods prior to the reorganization have been restated on an as if pooling basis. Prior to the reorganization, the Company had prepared combined consolidated financial statements combining LAI and LIPO Investments (Canada) Inc., an entity owned by a principal stockholder of the Company.

Through fiscal 2006, the Company s fiscal year ended on January 31st in the year following the year mentioned. Commencing with fiscal 2007, the Company s fiscal year ends on the first Sunday following January 30th in the year following the year mentioned.

Our business is affected by the pattern of seasonality common to most retail apparel businesses. The results for the periods presented are not necessarily indicative of future financial results.

NOTE 2. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. The provisions of FAS 161 are effective for the fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting FAS 161 on its consolidated financial statement disclosures.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations (revised 2007)* (FAS 141R). FAS 141R replaces FAS 141 and requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS 141R also requires transaction costs related to the business combination to be expensed as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of adopting SFAS 141R on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 changes the classification of noncontrolling (minority) interests on the balance sheet and the accounting for and reporting of transactions between the reporting entity and holders of such

lululemon athletica inc. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

noncontrolling interests. Under the new standard, noncontrolling interests are considered equity and are to be reported as an element of stockholders equity rather than within the mezzanine or liability sections of the balance sheet. In addition, the current practice of reporting minority interest expense or benefit also will change. Under the new standard, net income will encompass the total income before minority interest expense. The income statement will include separate disclosure of the attribution of income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount are to be accounted for as equity transactions. FAS 160 is effective for fiscal years beginning after December 15, 2008 and earlier application is prohibited. Upon adoption, the balance sheet and the income statement will be recast retrospectively for the presentation of noncontrolling interests. The other accounting provisions of the statement are required to be adopted prospectively. The Company is currently evaluating the impact that adopting FAS 160 will have on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). This Statement permits entities to choose to measure various financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company adopted FAS 159 on February 4, 2008 and did not elect the fair value option for any of its eligible financial assets or liabilities.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly does not require any new fair value measurements. The provisions of FAS 157 are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007, however the FASB has delayed the effective date of FAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of FAS 157 for financial assets and liabilities in the first quarter of fiscal 2008 did not have a material impact on the Company s consolidated financial statements. The Company is currently evaluating the impact of the adoption of FAS 157 for nonfinancial assets and nonfinancial liabilities on its financial position and results of operations.

NOTE 3. STOCK-BASED COMPENSATION

Share option plans

The Company s employees participate in various stock-based compensation plans which are either provided by a principal stockholder of the Company or by the Company directly.

Stock-based compensation expense charged to income for the plans was $2,172,382 and $1,407,533 for the thirteen weeks ended May 4, 2008 and the three months ended April 30, 2007 respectively. Total unrecognized compensation cost as at May 4, 2008 was $12,617,507 for all stock option plans, which is expected to be recognized over a weighted-average period of 3.0 years.

lululemon athletica inc. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company stock options

A summary of the Company s stock options and restricted shares activity as of May 4, 2008 and changes during the period then ended is presented below:

	Number of Stock Options	Weighted-Average Exercise Price	Number of Restricted Shares	Weighted-Average Grant Fair Value
Balance at February 3, 2008	4,772,349	$ 2.74	10,458	$ 19.43
Granted	80,000	$ 29.20		
Exercised	95,903	$ 0.58		
Forfeited	330,534	$ 0.58		
Balance at May 4, 2008	4,425,912	$ 3.42	10,458	$ 19.43
Exercisable at May 4, 2008	1,764,972	$ 0.58		

Stockholder- sponsored stock options

During the thirteen weeks ended May 4, 2008 there were no grants, exercises or forfeitures related to any of the stock options issued and outstanding under the stockholder-sponsored awards.

Employee stock purchase plan

The Company s Board of Directors and stockholders approved the Company s Employee Stock Purchase Plan (ESPP) in September 2007. The ESPP allows for the purchase of common stock of the Company by all eligible employees. Eligible employees may elect to have whatever portion of his or her base salary equates, after deduction of applicable taxes, to either 3%, 6% or 9% of his or her base salary withheld during each payroll period for purposes of purchasing shares of our common stock under the ESPP. Additionally, we, or the subsidiary employing the participant, will make a cash contribution as additional compensation to each participant equal to one-third of the aggregate amount of that participant s contribution for that pay period, which will be used to purchase shares of our common stock, subject to certain limits as defined in the ESPP. The maximum number of shares available under the ESPP is 3,000,000 shares. During the quarter ended May 4, 2008, 9,201 shares were purchased under the ESPP, which were funded by the Company through open market purchases.

Options with performance and/or market conditions

The performance options issued to an officer of the Company became fully vested during the thirteen weeks ended May 4, 2008. The Company has recognized the remaining portion of the fair value of the performance awards during the thirteen week period ended May 4, 2008, and there is no further unrecognized compensation cost related to the performance options.

NOTE 4. LEGAL PROCEEDINGS

James Jones, one of our former executive officers, filed suit against us in the Supreme Court of British Columbia, Canada. The action, captioned James Jones v. Lululemon Athletica Inc., Case No. S071780, was filed on March 14, 2007 against us. Mr. Jones claims that we terminated his employment contract without cause and lawful compensation resulting in breach of contract, wrongful dismissal and negligent misrepresentation. Mr. Jones also alleges that we misrepresented the terms of the employment contract, and seeks damages in an unspecified amount, plus costs and interest. We believe this claim is without merit and are vigorously defending against it.

We are a party to various other legal proceedings arising in the ordinary course of our business, but we are not currently a party to any legal proceeding that management believes would have a material adverse effect on our consolidated financial position or results of operations.

lululemon athletica inc. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. EARNINGS PER SHARE

The details of the computation of basic and diluted earnings per share is as follows:

	Thirteen Weeks Ended May 4, 2008	Three Months Ended April 30, 2007
Net income	$ 8,476,390	$ 3,542,062
Basic weighted-average number of shares outstanding	67,678,349	65,225,819
Basic earnings per share	$ 0.13	$ 0.05
Basic weighted-average number of shares outstanding	67,678,349	65,225,819
Effect of stock options assumed exercised	3,972,650	834,399
Diluted weighted-average number of shares outstanding	71,650,999	66,060,218
Diluted earnings per share	$ 0.12	$ 0.05

Our calculation of weighted-average shares include the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For the thirteen weeks ended May 4, 2008, 249,393 stock options were anti-dilutive to earnings and therefore have been excluded from the computation of diluted earnings per share.

lululemon athletica inc. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	May 4, 2008	February 3, 2008
Accounts receivable:		
Trade accounts receivable	$ 3,206,729	$ 2,623,185
Other accounts receivable	1,142,266	1,819,324
Allowance for doubtful accounts	(10,695)	(10,953)
	$ 4,338,299	$ 4,431,556
Inventories:		
Finished goods	$ 55,308,981	$ 39,045,937
Raw materials	395,079	541,651
Provision to reduce inventory to market value	(656,090)	(495,380)
	$ 55,047,970	$ 39,092,208
Property and equipment:		
Leasehold improvements	$ 37,455,553	$ 33,466,659
Furniture and fixtures	14,801,665	13,597,290
Computer hardware and software	15,261,150	12,648,156
Equipment and vehicles	259,289	243,407
Accumulated amortization and depreciation	(18,715,145)	(15,916,947)
	$ 49,062,512	$ 44,038,565
Goodwill and intangible assets:		
Goodwill	$ 738,242	$ 738,242
Changes in foreign currency exchange rates	201,688	224,376
	939,930	962,618
Reacquired franchise rights	$ 7,566,037	$ 7,566,037
Non-competition agreements	694,177	694,177
Accumulated amortization	(2,995,291)	(2,793,406)
Changes in foreign currency exchange rates	1,464,760	1,694,621
	$ 6,729,682	$ 7,161,429

	$	7,669,612	$	8,124,047
Accrued liabilities:				
Inventory purchases	$	6,208,615	$	3,304,997
Sales tax collected		1,867,587		2,157,800
Accrued rent		1,436,629		1,291,373
Other		2,097,121		719,035
	$	11,609,952	$	7,473,205
Other non-current liabilities:				
Deferred lease liability	$	3,872,618	$	3,585,699
Tenant inducements		3,224,636		3,135,521
	$	7,097,254	$	6,721,220

lululemon athletica inc. and Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. SEGMENT REPORTING

The Company s reportable segments are comprised of corporate-owned stores, franchises and other. Phone sales, warehouse sales and showrooms sales have been combined into Other. Information for these segments is detailed in the table below:

	Thirteen Weeks Ended May 4, 2008	Three Months Ended April 30, 2007
Net revenue:		
Corporate-owned stores	$ 70,578,550	$ 38,007,778
Franchises	4,537,596	4,917,506
Other	3,051,348	1,864,172
	$ 78,167,494	$ 44,789,456
Income from operations before general corporate expense:		
Corporate-owned stores	$ 23,216,774	$ 11,891,131
Franchises	2,078,608	2,339,280
Other	1,796,314	818,328
	27,091,696	15,048,739
General corporate expense	15,370,947	8,200,549
Net operating income	11,720,749	6,848,190
Other expense (income), net	(453,508)	(106,936)
Income before income taxes	$ 12,174,257	$ 6,955,126
Capital expenditures:		
Corporate-owned stores	$ 5,051,753	$ 2,219,109
Corporate	3,548,221	1,106,060
	$ 8,599,974	$ 3,325,169
Depreciation:		
Corporate-owned stores	$ 2,137,650	$ 1,221,510
Corporate	972,995	170,937
	$ 3,110,645	$ 1,392,447

ITEM 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Some of the statements contained in this Form 10-Q and any documents incorporated herein by reference constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements which relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as may , will , should , expects , plans , anticipates , believes , estimates , intends , predicts , potential these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. These factors include without limitation:

our ability to manage operations at our current size or manage growth effectively;

our ability to locate suitable locations to open new stores and to attract customers to our stores;

our ability to successfully expand in the United States and other new markets;

our ability to find suitable joint venture partners and expand successfully outside of North America;

our ability to finance our growth and maintain sufficient levels of cash flow;

increased competition causing us to reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share;

our ability to effectively market and maintain a positive brand image;

our ability to maintain recent levels of comparable store sales or average sales per square foot;

our ability to continually innovate and provide our consumers with improved products;

the ability of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner;

our lack of long-term supplier contracts;

our lack of patents or exclusive intellectual property rights in our fabrics and manufacturing technology;

- our ability to attract and maintain the services of our senior management and key employees;
- the availability and effective operation of management information systems and other technology;
- changes in consumer preferences or changes in demand for technical athletic apparel and other products;
- our ability to accurately forecast consumer demand for our products;
- our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in our operating results;
- our ability to maintain effective internal controls; and
- changes in general economic or market conditions, including as a result of political or military unrest or terrorist attacks.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this

Form 10-Q. Except as required by applicable securities law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Overview

lululemon is a designer and retailer of technical athletic apparel. Our yoga-inspired apparel is marketed under the lululemon athletica brand name. We offer a comprehensive line of apparel and accessories including fitness pants, shorts, tops and jackets designed for athletic pursuits such as yoga, dance, running and general fitness. As of May 4, 2008, our branded apparel was principally sold through 85 corporate-owned and franchise stores that are primarily located in Canada and the United States. We believe our vertical retail strategy allows us to interact more directly with and gain insights from our customers while providing us with greater control of our brand. For the first quarter of fiscal 2008, 69.1% of our net revenue was derived from sales of our products in Canada, 29.3% of our net revenue was derived from the sales of our products in the United States and 1.6% of our net revenue was derived from sales of our products in Australia and Japan. After reevaluating our operating performance in Japan and our strategic priorities, we plan to discontinue our operations in Japan in the second quarter of fiscal 2008. We opened our first store in Japan in 2005 and have operated in Japan through a joint venture with Japanese apparel company, Descente, Ltd., since 2006. Japan represented less than 1.5% of our revenues in fiscal 2007 and required a disproportionate amount of management time and attention during fiscal 2007. We believe that our time, attention and capital resources are best spent focused on our top priorities, which are growth in the United States, where we plan to open 35 stores in fiscal 2008, and the development of an e-commerce business.

Our net revenue has grown from $40.7 million for fiscal 2004 to $274.7 million for fiscal 2007. This represents a compound annual growth rate of 88.9%. Our net revenue also increased from $44.8 million for the first quarter of fiscal 2007 to $78.2 million for the first quarter of fiscal 2008, representing a 74.5% increase. By the end of fiscal 2004, we operated 20 stores including 14 corporate-owned stores and six franchise stores in Canada, the United States and Australia. The majority of our stores were located in Canada, with only three corporate-owned stores in the United States and one franchise store in Australia. Our increase in net revenue from fiscal 2004 to fiscal 2007 resulted from the addition of 17 retail locations in fiscal 2005, 14 retail locations in fiscal 2006, 31 retail locations in fiscal 2007, and four retail locations in the first quarter of fiscal 2008 and strong comparable store sales growth of 19%, 25%, 34%, and 28% in fiscal 2005, fiscal 2006, fiscal 2007, and the first quarter of fiscal 2008, respectively. Our ability to open new stores and grow sales in existing stores has been driven by increasing demand for our technical athletic apparel and a growing recognition of the lululemon athletica brand. We believe our superior products, strategic store locations, inviting store environment, grassroots marketing approach and distinctive corporate culture are responsible for our strong financial performance.

We have three reportable segments: corporate-owned stores, franchises and other. We report our segments based on the financial information we use in managing our businesses. While we receive financial information for each corporate-owned store, we have aggregated all of the corporate-owned stores into one reportable segment due to the similarities in the economic and other characteristics of these stores. Our franchises segment accounted for 17.3% of our net revenues for fiscal 2005, 14.3% for fiscal 2006, 6.6% for fiscal 2007 and 5.8% for the first quarter of fiscal 2008. Opening new franchise stores is not a significant part of our near-term store growth strategy, and we therefore expect that the revenue derived from our franchise stores will continue to comprise less than 10% of the net revenue we report in future fiscal years. Our other operations accounted for less than 10% of our revenues in each of fiscal 2005 and fiscal 2006, fiscal 2007 and the first quarter of fiscal 2008.

For fiscal years through fiscal 2006, our fiscal year ended on January 31st in the year following the year mentioned. Commencing with fiscal 2007, our fiscal year ends on the first Sunday following January 30th in the year following the year mentioned.

12

Results of Operations

Thirteen weeks ended May 4, 2008 compared to three months ended April 30, 2007

The following table summarizes key components of our results of operations for the thirteen weeks ended May 4, 2008 and the three months ended April 30, 2007. The operating results are expressed in dollar amounts as well as relevant percentages, presented as a percentage of net revenue.

	Thirteen Weeks Ended May 4, 2008 and Three Months Ended April 30, 2007			
	2008	**2007**	**2008**	**2007**
	(In thousands)		**(Percentages)**	
Net revenue	$ 78,167	$ 44,789	100.0	100.0
Cost of goods sold	36,645	22,178	46.9	49.5
Gross profit	41,522	22,611	53.1	50.5
Selling, general and administrative expenses	29,802	15,763	38.1	35.2
Income from operations	11,720	6,848	15.0	15.3
Other expenses (income)	(454)	(107)	(0.6)	(0.2)
Income before income taxes	12,174	6,955	15.6	15.5
Provision for income tax	3,753	3,449	4.8	7.7
Non-controlling interest	(55)	(36)	(0.1)	(0.1)
Net income	$ 8,476	$ 3,542	10.8	7.9

Net Revenue

Net revenue increased $33.4 million, or 74.5%, to $78.2 million for the first quarter of fiscal 2008 from $44.8 million for the first quarter of fiscal 2007. This increase was the result of increased comparable store sales and sales from new stores opened. Assuming the average exchange rate between the Canadian and United States dollars for the first quarter of fiscal 2007 remained constant, our net revenue would have increased $26.2 million or 58.4% for the first quarter of fiscal 2008.

	Thirteen Weeks Ended May 4, 2008	Three Months Ended April 30, 2007
	(In thousands)	
Net revenue by segment:		
Corporate-owned stores	$ 70,578	$ 38,008

Franchises	4,538	4,918
Other	3,051	1,863
Net revenue	$ 78,167	$ 44,789

Corporate-Owned Stores. Net revenue from our corporate-owned stores segment increased $32.6 million, or 85.7%, to $70.6 million for the first quarter of fiscal 2008 from $38.0 million for the first quarter of fiscal 2007. The following contributed to the $32.6 million increase in net revenue from our corporate-owned stores segment:

Net revenue from corporate-owned stores we opened during the first quarter, and corporate-owed stores we opened subsequent to April 30, 2007 and therefore not included in the comparable store sales growth, contributed $21.8 million, or 66.9%, of the increase. Of the increase of $21.8 million, the acquisition of three Calgary franchise stores in April 2007 contributed $3.8 million of the total increase. New store openings from the first quarter of fiscal 2007 included two stores in Canada and five stores in the United States.

Comparable store sales growth of 28% in the first quarter of fiscal 2008 contributed $10.8 million, or 33.1%, of the increase. Assuming the average exchange rate between the Canadian and the United States dollars for the first quarter of fiscal 2007 remained constant our comparable store sales would have increased 15% for the first quarter of fiscal 2008 and contributed $5.7 million, or 17.5%, of the increase. The increase in comparable store sales was driven primarily by the strength of our existing product lines, successful introduction of new products and increasing recognition of the lululemon athletica brand name.

Franchises. Net revenue from our franchises segment decreased $0.4 million, or 7.7%, to $4.5 million for the first quarter of fiscal 2008 from $4.9 million for the first quarter of fiscal 2007. The decrease in net revenue from our franchises segment consisted primarily of franchises net revenue of $1.8 million that shifted to corporate-owned stores net revenue when we acquired three franchise stores in Calgary offset by increased franchise revenue of $1.4 million from our remaining franchise locations.

Other. Net revenue from our other segment increased $1.2 million, or 63.7%, to $3.1 million for the first quarter of fiscal 2008 from $1.9 million for the first quarter of fiscal 2007. The $1.2 million increase was primarily the result of increased wholesale, phone sales and showroom sales.

Gross Profit

Gross profit increased $18.9 million, or 83.6%, to $41.5 million for the first quarter of fiscal 2008 from $22.6 million for the first quarter of fiscal 2007. The increase in gross profit was driven principally by: